The Real Estate ANALYST

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A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends Constantly measuring and reporting the basic economic factors responsible for changes in trends and values ....Current Studies.... Survey.... Forecasts

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

RESIDENTIAL RENTS BADLY OUT OF BALANCE

THERE is a substantial minority in this country that is aware of the fact that residential rents are decidedly out of balance. The big portion of this minority are those owners of residential property that are under rent control.

Insofar as these owners are concerned, the residential rents they receive are too low. By too low is meant that the controlled properties do not bring sufficient net income to pay the operating costs, taxes, financing costs and interest rates on the loan against many of them, provide for the recapture of invested capital and pay a just return on this invested capital. This return on invested capital has in a great many cases been wrung completely out of the building income by frozen rent levels and rising operating and fixed costs.

The other group aware that rents are out of balance are those investors who would normally be willing to put their savings into income property, but who now realize that rents on new properties must be so high that little likelihood exists of the high rent schedule being sustained for a long enough period to enable these potential investors to retain control of their property. Consequently, little, if any, rental property is being erected except those projects insured by the Federal government and financed by those individuals or institutions that are willing to take 4% interest for a few years followed by 2-1/2% debentures.

We therefore have a completely chaotic condition in the rental market. The landlords of controlled units are the only major group in the country who own a commodity that is still under price control. As a consequence, this large group of housing units is priced considerably below the level they would occupy in a free market. On the other hand, the uncontrolled units are, in the vast majority of cases, priced far above the level they would occupy in a free market.

There are two broad general principles in a free economic market - one that is not under rent control or government regulation - that affect the level of residential rents. Over the short pull in a free market residential rents (and all other rents) are affected solely by the supply of and demand for residential units. The cost of reproduction, the tax level, operating costs and net income have nothing to do with the short-term residential rent level.

Over the long pull in a free market, however, the situation is quite different. Through the years replacement cost, land cost, operating cost, taxes and interest rates combine into an amount known as the monthly cost of ownership. A normal rent is a rent that will meet this monthly cost of ownership and have a sufficient re-

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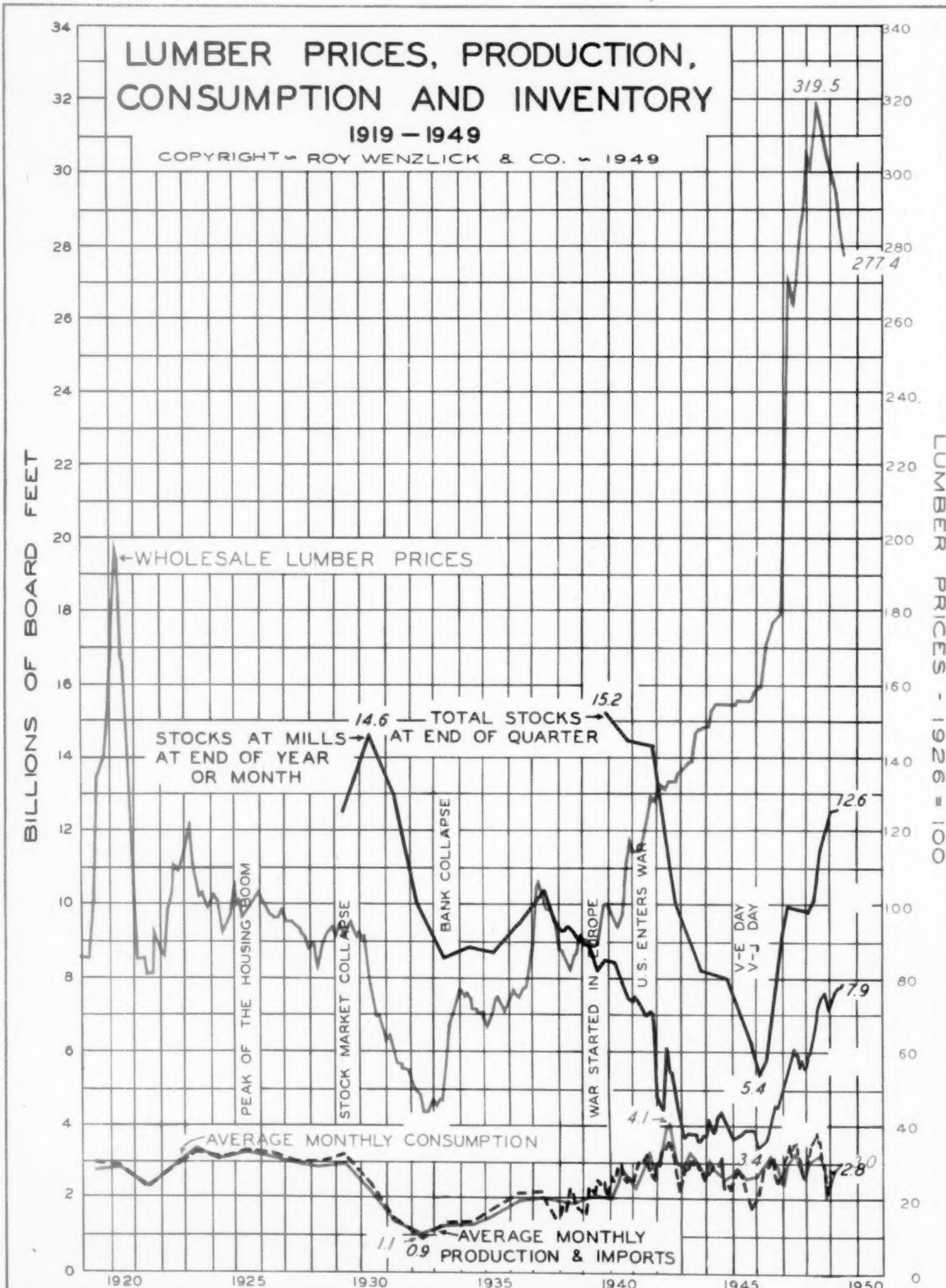
LUMBER PRICES, PRODUCTION, CONSUMPTION AND INVENTORY
1919 — 1949
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BILLIONS OF BOARD FEET
LUMBER PRICES - 1926 = 100
WHOLESALE LUMBER PRICES
STOCKS AT MILLS AT END OF YEAR OR MONTH
TOTAL STOCKS AT END OF QUARTER
AVERAGE MONTHLY CONSUMPTION
AVERAGE MONTHLY PRODUCTION & IMPORTS
PEAK OF THE HOUSING BOOM
STOCK MARKET COLLAPSE
BANK COLLAPSE
WAR STARTED IN EUROPE
U.S. ENTERS WAR
V-E DAY
V-J DAY
319.5
277.4
14.6
15.2
12.6
7.9
5.4
4.1
3.4
3.0
2.8
1.1
0.9
1920
1925
1930
1935
1940
1945
1950

FAMILY INCOME REACHED NEW PEAK IN 1949

IN 1948 the average family income in the United States reached an all-time peak of $4,941. This was $186, or about 4%, above the corrected 1947 figure of $4,-755. This amount is about 20% higher than the amount the average family received in 1945, and almost 80% above the 1929 average. On pages 428 through 431 are shown the average family incomes in the various States from 1929 through 1948.

In the last few years income figures have become increasingly important in conducting and interpreting market surveys, sales campaigns and other activities dealing with consumer research. These charts are based on figures recently compiled by the Department of Commerce. The computations on a per family basis are our own. We have made adjustments in the New York figures for the number of New York City employees living in New Jersey.

On each of these charts we have distinguished four types of family income - 1. that received from salaries and wages, including the pay of persons in the armed services; 2. proprietor's income, including farmer's; 3. property income, which includes dividends, interest and net rents and royalties; and 4. other income, which

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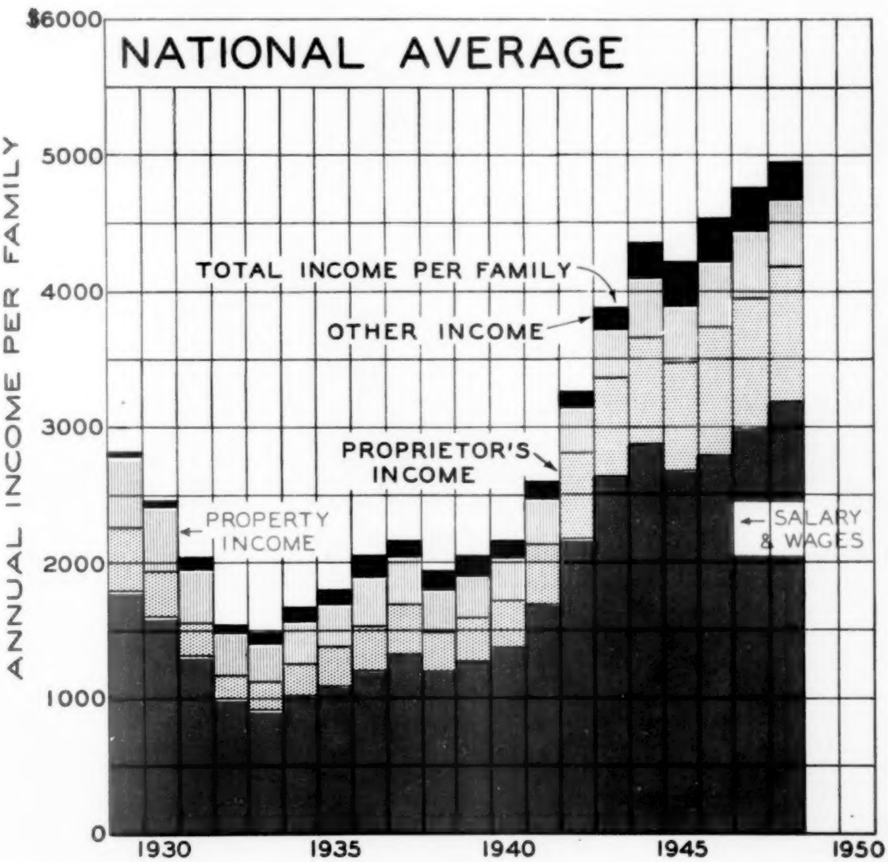
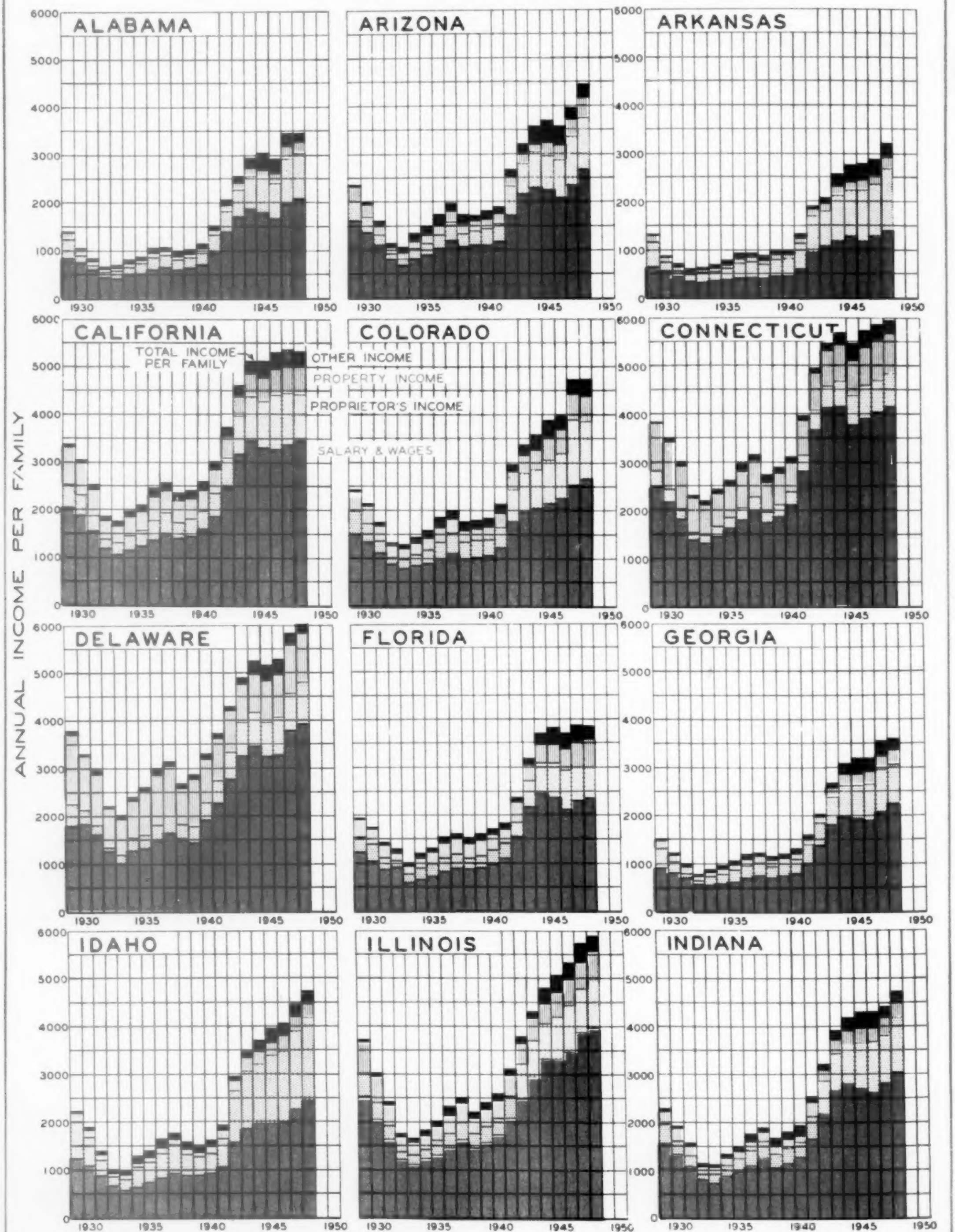
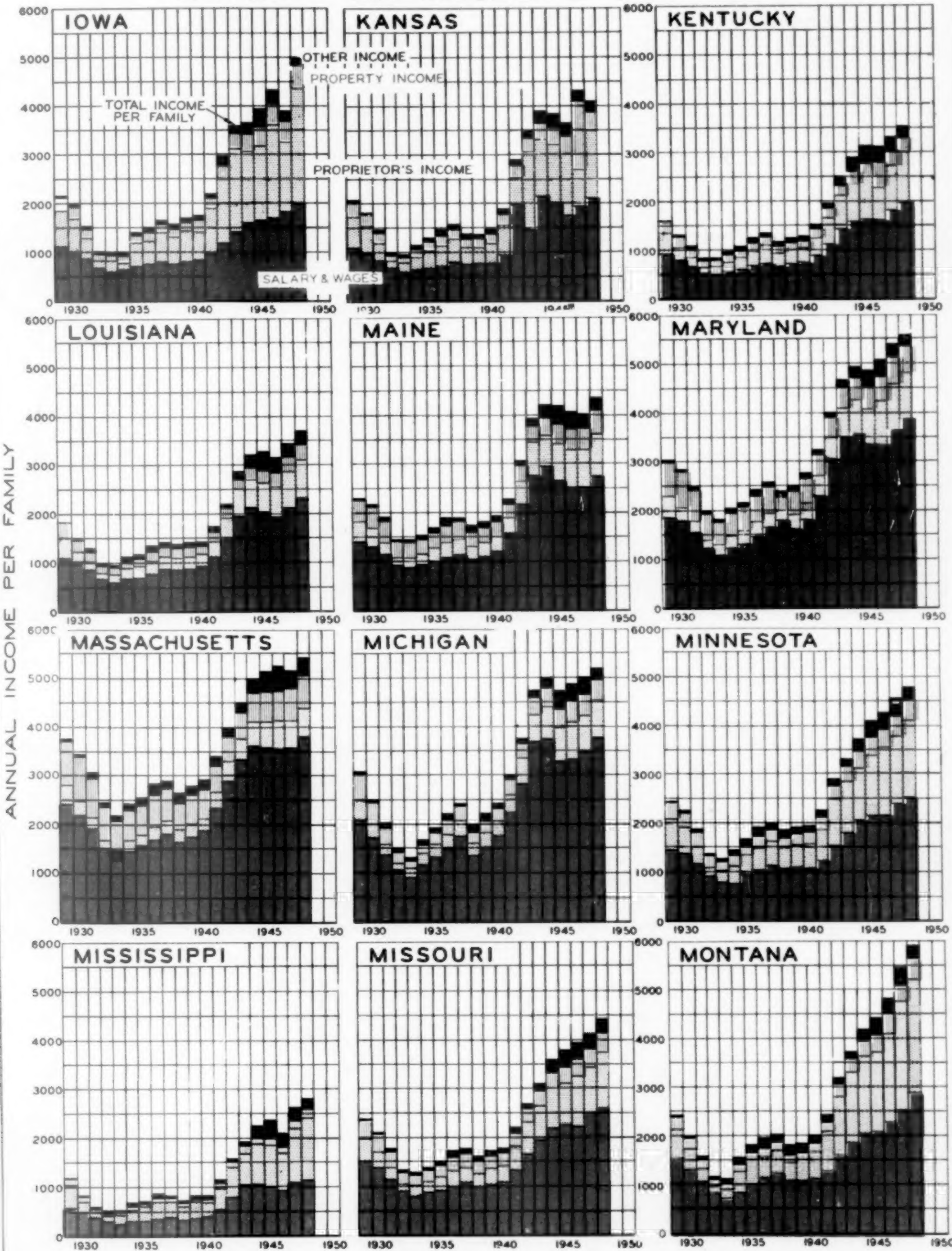
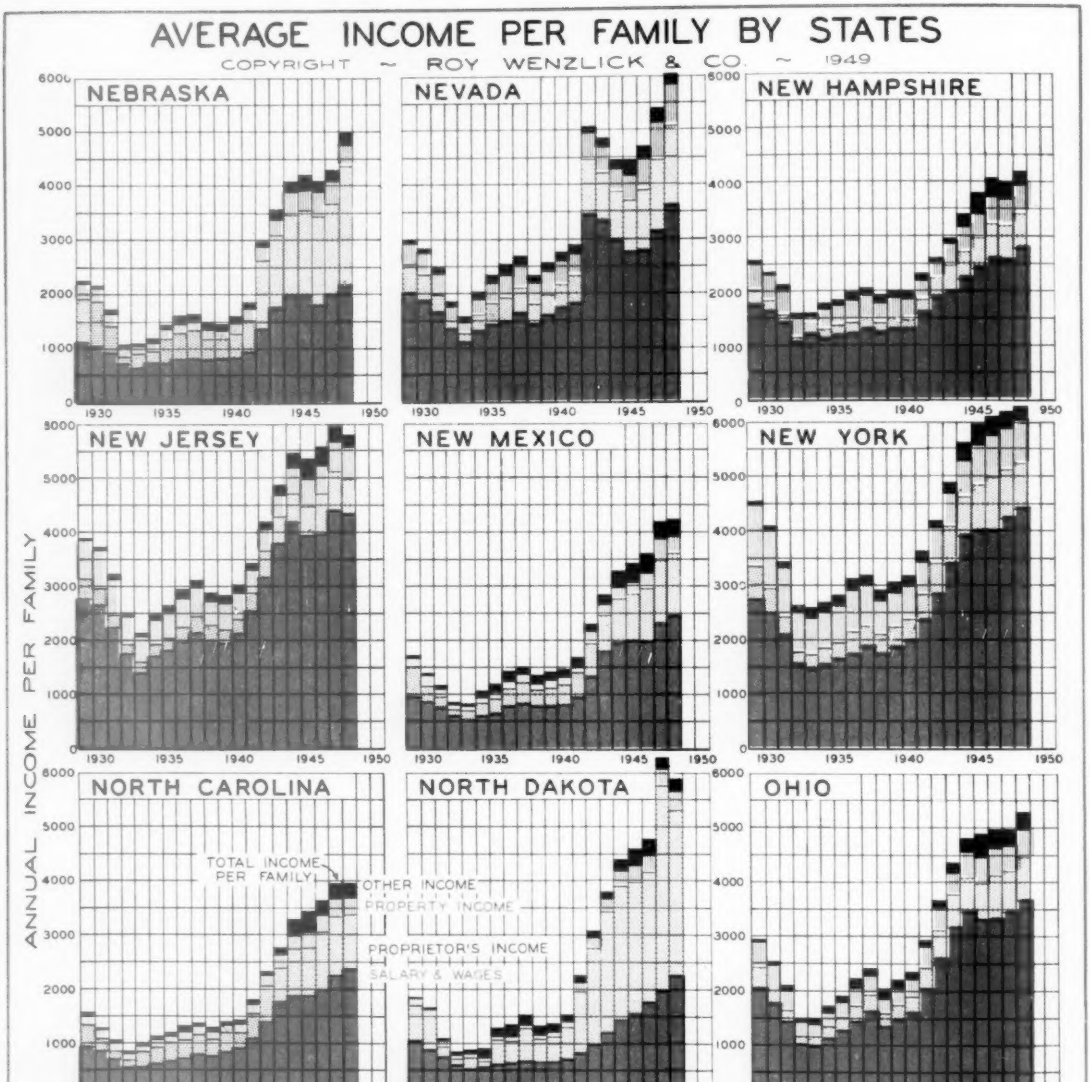


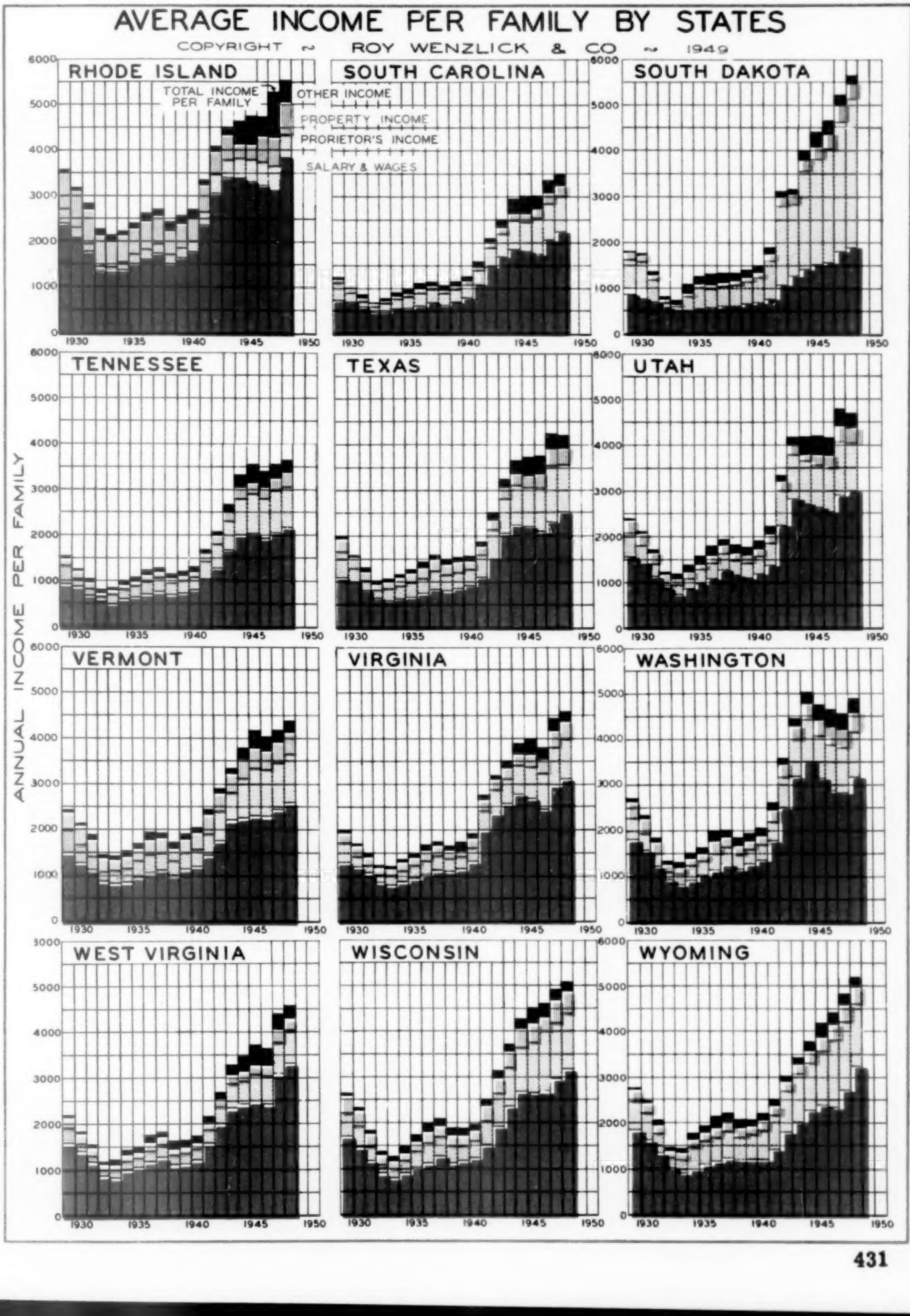
AVERAGE INCOME PER FAMILY BY STATES



AVERAGE INCOME PER FAMILY BY STATES




AVERAGE INCOME PER FAMILY BY STATES
COPYRIGHT ~ ROY WENZLICK & CO. ~ 1949
ANNUAL INCOME PER FAMILY
NEBRASKA
NEVADA
NEW HAMPSHIRE
NEW JERSEY
NEW MEXICO
NEW YORK
NORTH CAROLINA
NORTH DAKOTA
OHIO
OKLAHOMA
OREGON
PENNSYLVANIA
TOTAL INCOME PER FAMILY
OTHER INCOME
PROPERTY INCOME
PROPRIETOR'S INCOME
SALARY & WAGES
0
1000
2000
3000
4000
5000
6000
1930
1935
1940
1945
1950



AVERAGE INCOME PER FAMILY BY STATES
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ANNUAL INCOME PER FAMILY
RHODE ISLAND
TOTAL INCOME PER FAMILY
OTHER INCOME
PROPERTY INCOME
PRORIETOR'S INCOME
SALARY & WAGES
SOUTH CAROLINA
SOUTH DAKOTA
TENNESSEE
TEXAS
UTAH
VERMONT
VIRGINIA
WASHINGTON
WEST VIRGINIA
WISCONSIN
WYOMING
0
1000
2000
3000
4000
5000
6000
1930
1935
1940
1945
1950

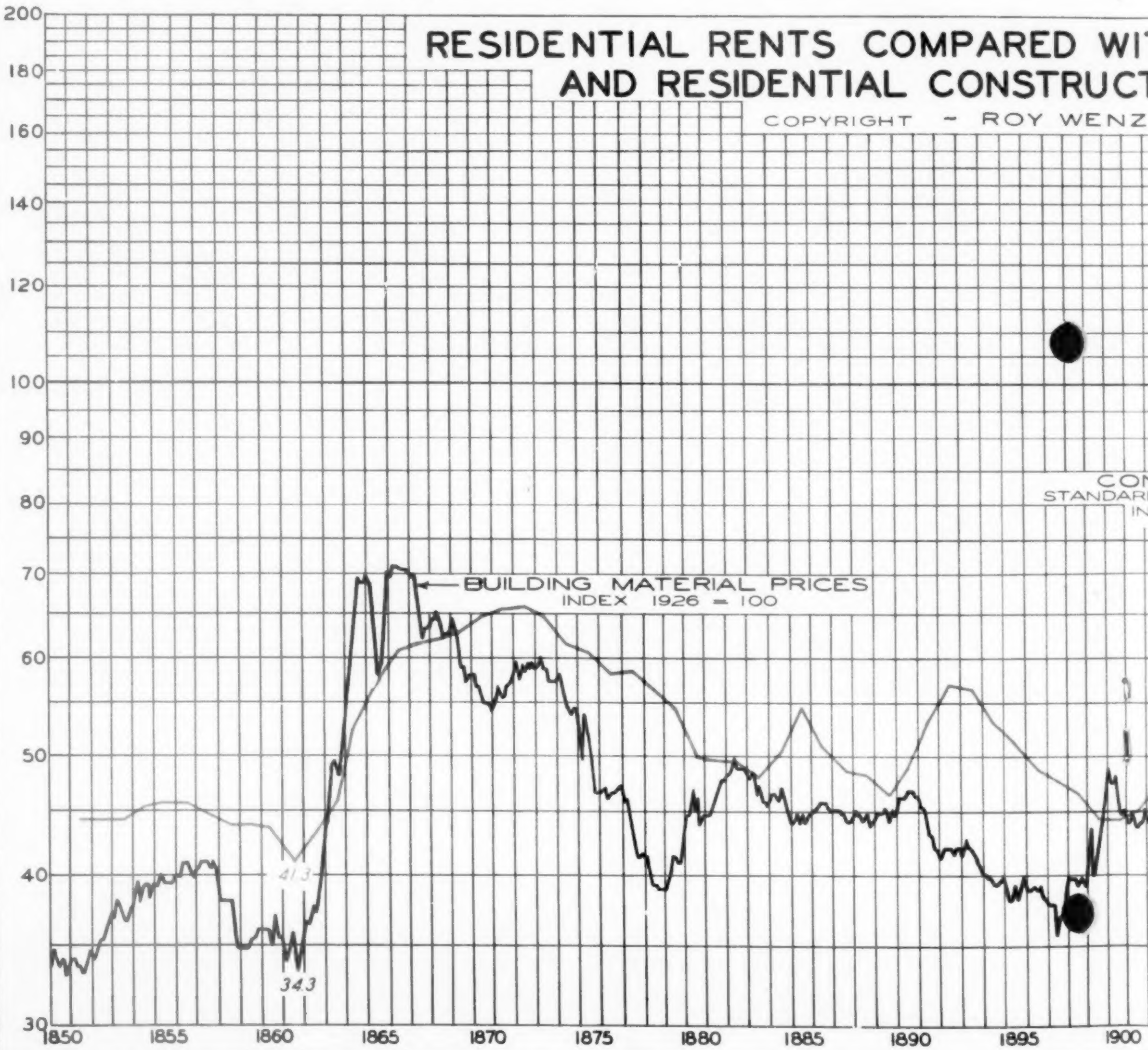
RESIDENTIAL RENTS BADLY OUT OF BALANCE

(cont. from page 425)

turn left to attract capital into the construction of new rental units.

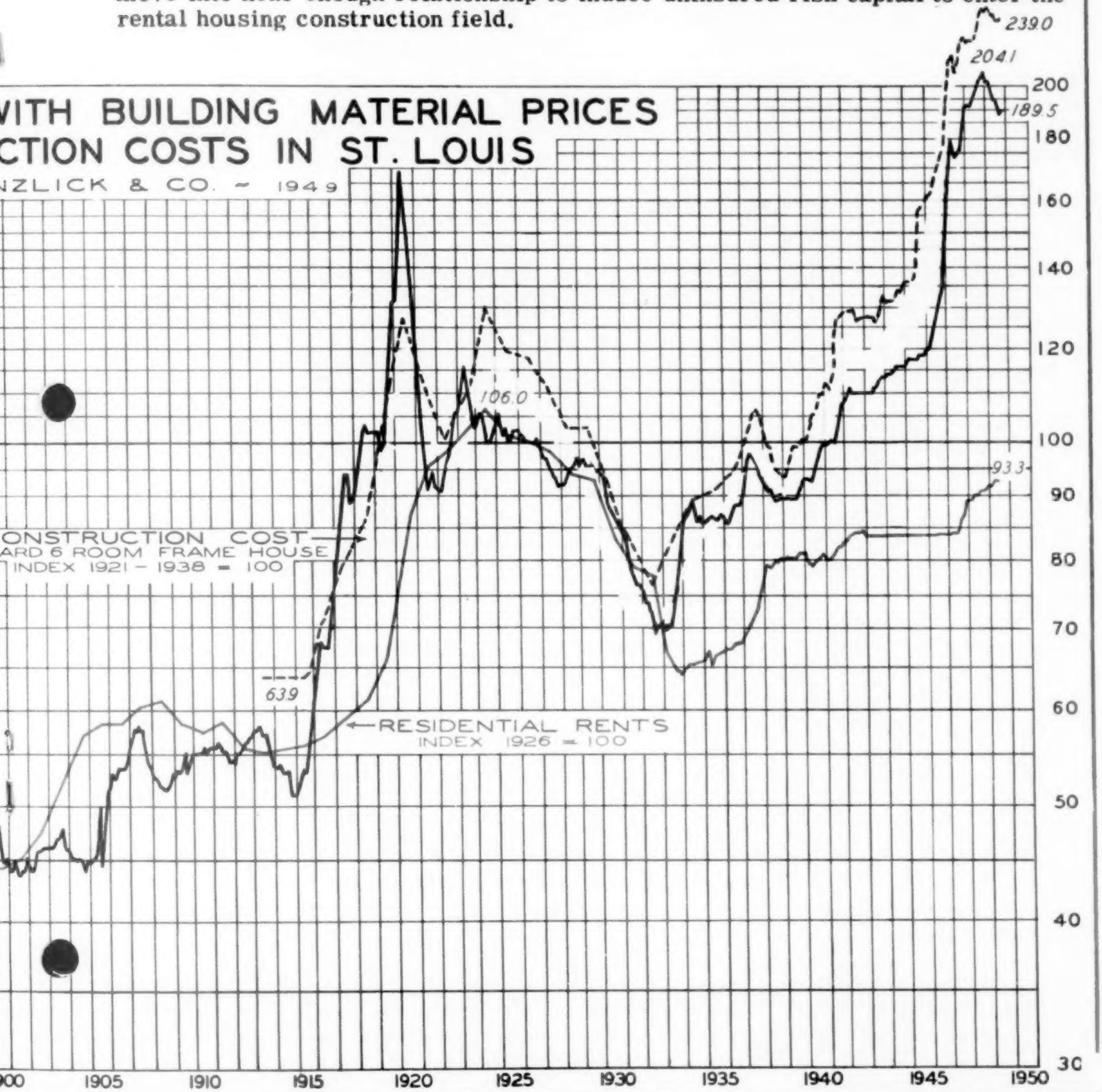
Both of these principles have been temporarily (we sincerely hope) laid to rest by rent controls. Neither can operate and this results in the cloud of uncertainty that has hung low over the rental housing market for several years. And since so large a segment of the real estate industry is thus affected, this uncertainty manifests itself in all other segments of the industry, particularly in the construction and brokerage of residential units.

On pages 432 and 433 of this report is an excellent demonstration of the manner



in which the long-term principle operates. Notice how the red line representing residential rents follows the blue lines representing reproduction cost factors. The relationship between these two factors is, of course, not exact, but it was reasonably close from the period of the early 1850's until the imposition of rent control.

It will be noticed that these two factors have apparently slowly started toward a better balance. Rents have risen slowly in the last year or two, but are still below their long-range normal; construction costs have started down in nearly all parts of the country. It will be quite some time, however, before these two factors move into near enough relationship to induce uninsured risk capital to enter the rental housing construction field.



FAMILY INCOME REACHED NEW PEAK IN 1948

(cont. from page 427)

includes direct relief, pensions, compensation for injuries, social insurance benefits, and allowances and allotments paid to dependents of military personnel.

It is interesting to note that since 1942 property income has increased less than that of any other type - only 39% - whereas proprietor's income has risen 63% and salary and wages 47%. (These are wages and salary payments per family and are not to be confused with increases in hourly or weekly wages.) "Other income" reached its peak in 1945, largely as a result of large payments to dependents of military personnel.

Despite the continued climb of the national average, there were seven States where average family income failed to equal the 1947 peak. These were: California, Colorado, Kansas, New Jersey, North Dakota, Texas and Utah. Although the State of Washington showed a good increase in 1948 over the 1947 rate, it was still below its 1944 peak.

Insofar as various types of income are concerned, the following table shows how the first five States ranked:

Total Income		Salary and Wages		Proprietor's Income		Property Income	
N. Y. -	$6,397	N. Y. -	$4,321	S. Dak. -	$3,240	Dela. -	$1,037
D. C. -	6,110	N. J. -	4,271	N. Dak. -	3,057	D. C. -	871
Nev. -	6,071	D. C. -	4,267	Iowa -	2,369	Conn. -	865
Dela. -	6,014	Conn. -	4,135	Neb. -	2,171	N. Y. -	833
Conn. -	5,907	Ill. -	3,902	Idaho -	1,705	Nev. -	773

Outside of the fact that Nevada is the third ranking State in average family income received, the most surprising thing about the above table is the fact that the five States leading in average proprietor's income per family are all agricultural States. Perhaps in view of the prices farmers received in 1948 and the enormous crops harvested, this is not so surprising after all.

It seems to us that the average income per family will drop by only a small percentage if at all during 1949 and the first half of 1950. We say this because personal income in 1949 is still at about the same level as in 1948, roughly $210-$212 billion. In addition to the personal income level remaining fairly stable for at least the next few months, the economy of the nation will receive an inflationary jolt in the form of nearly $3 billion in veteran payments.

We expect that the major strikes now crippling certain industries will be settled before much more time has elapsed, if for no other reason than that neither side really wants a strike and labor can ill afford one of any great duration. The outlook seems to be one of little if any wage increase, but some gains for labor on the issue of pensions.

All business should fervently hope that the non-contributory pension does not become an accepted practice. It would seem that any man should be willing to provide something toward his own security, and we believe that another dangerous precedent

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MIGRATION TO CITIES SLOWS DOWN

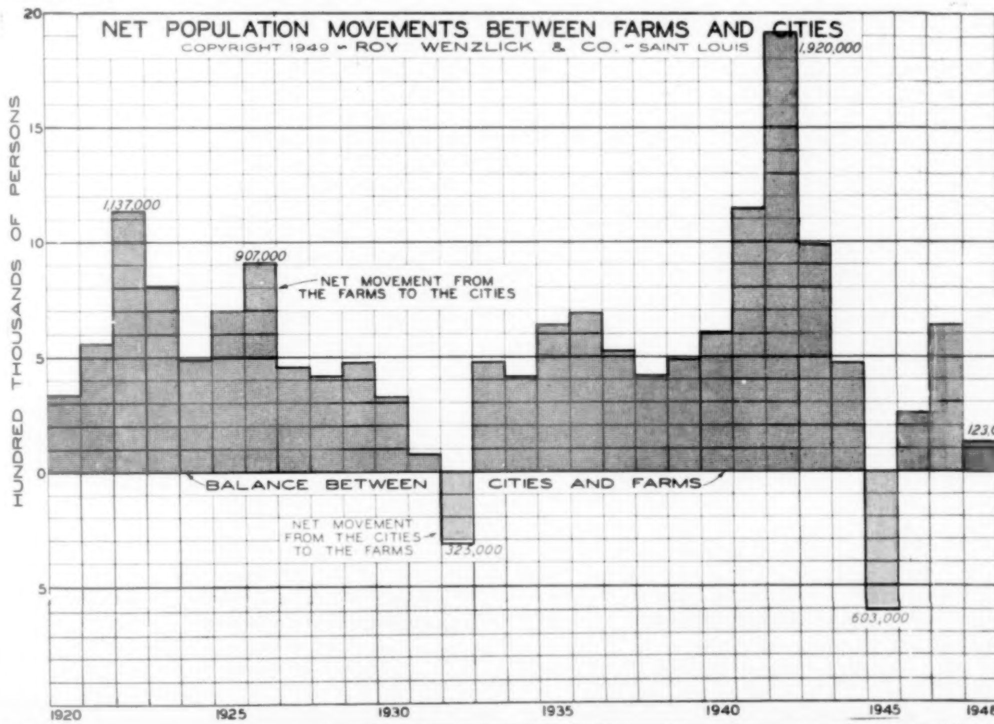
IN 1948 the net population movements between farms and cities showed the lowest gain for the cities since 1931. During 1932 and 1945 the cities lost population to the farms, but the past year showed the lowest gain for the cities since 1931.

Last year only 123,000 more people moved into cities from farms than moved onto farms from the cities. This was a big drop from the 1947 gain of 640,000 in favor of the cities.

Apparently the tightening employment situation in town had a considerable effect on the migration from the farm. Also a contributory cause was the bountiful year had by most farmers which persuaded some with migratory tendencies to stick around a while longer.

Over the long pull it is to the advantage of the nation as a whole to enlarge and mechanize farm operations, thereby freeing more of the farm population for work in city industries and offices. Every increase in farm mechanization puts just that much more labor at the disposal of industry. And the more people we can employ in nonagricultural pursuits the higher, generally speaking, will be our standard of living. That is provided no decrease in agricultural production results from such a shift.

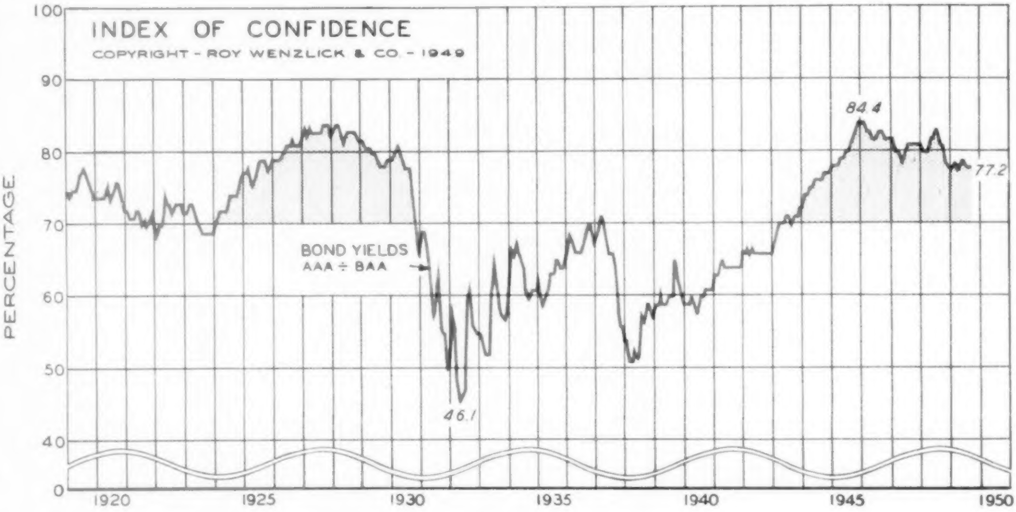
Such migration from the farms into industrial work in the cities is the heart of the solution to the problem in the Southern States. For many years there has been an imbalance between industrial and agricultural employment. Too many people were on run-down farms and too few in Southern industry. In comparatively recent years this imbalance has been slowly improving and in our opinion will continue to do so.



CONFIDENCE APPARENTLY STILL HIGH

THE index below is a very simple indicator of business confidence, or rather the confidence of informed investors regarding the business outlook. It was devised by the late General Leonard Ayres of the Cleveland Trust Company.

The index is derived by dividing the yields of Aaa bonds by the yields of Baa bonds. During the upswing and at the top of a business boom, investors frequently regard the issues of weaker corporations almost as favorably as they do those of the stronger corporations. Consequently, they bid up the price of the lower grade bonds until their yields are very little greater than those of the top grade bonds. As business conditions show signs of worsening, investors begin to lose confidence in the weaker issues. They become more interested in safety of investment than in the higher return. When this attitude develops the price on the Baa bonds begins to drop and the yield begins to rise.



FAMILY INCOME REACHED NEW PEAK IN 1948
(cont. from page 434)

will be set if a major portion of industry follows what we consider to be a very unwise and ill-advised move on the part of Ford and Kaiser in agreeing to non-contributory pensions.

Demands in major lines are holding up well. The automobile industry is shooting for a near-record year in 1949 and 1950 will be almost as good. The same can be said for the housing industry and as soon as the steel strike is settled that industry will begin rolling toward peak or near-peak production. The appliance business is once more picking up and department stores can look forward to an enormous Christmas volume in nearly all of their lines. All in all, 1949 will probably close out with a bang that will resound well into 1950. As we have pointed out before, the recession was not one caused by lack of consumer purchasing power. The consumer had plenty of money and still has. He's just not quite so free with it as he was in the immediate postwar period. The day of the salesman has returned.

PERSONAL SAVINGS NEAR POSTWAR PEAK

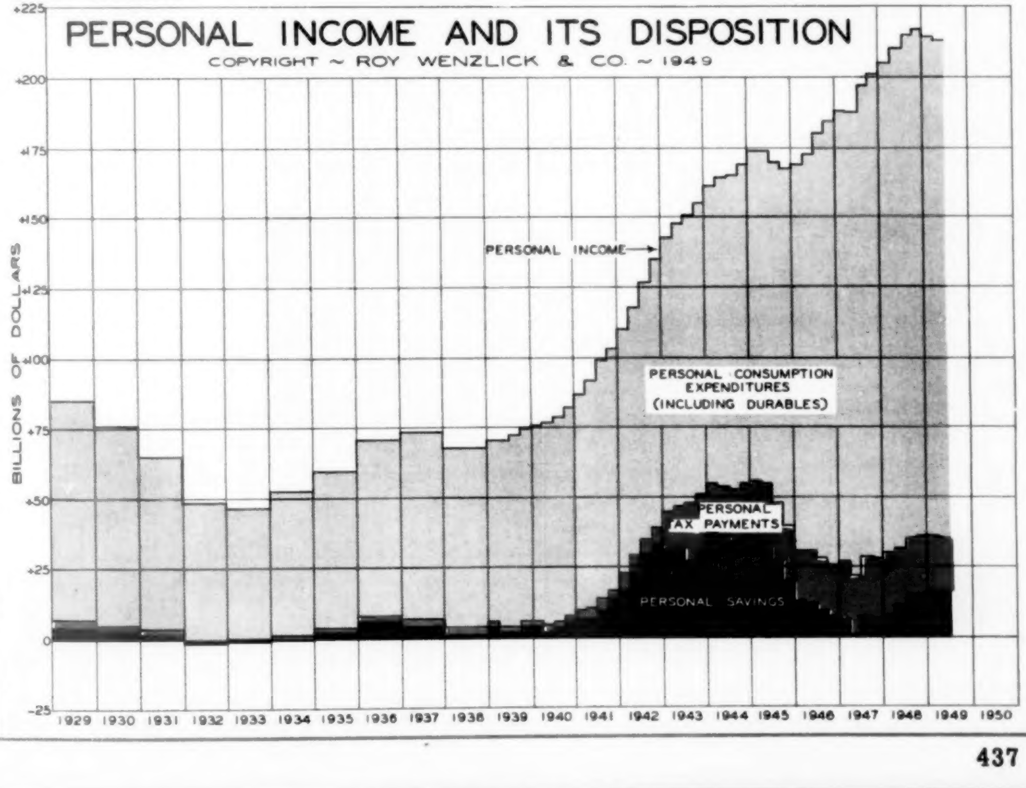
AT the end of June 1949 personal savings stood at $16 billion, or about $1 billion less than the peak of $17.1 billion reached in March 1949. This is higher than they have been at any time since the last quarter of 1945.

Following V-E Day, stored-up savings of nearly $33 billion began to cascade over the country in an orgy of consumer spending. Naturally, this was because incomes had risen rapidly during the war, building up a large pool of funds which were practically unspendable due to the acute shortages generated by the war effort.

As the demands of the war effort became less, more products found their way into the eager consumer market and savings began to diminish. Later on as prices started rising feverishly and the value of our money lessened, so, too, did the incentive to save money lessen. As long as the general public believed that prices were going to rise still higher, they felt thatthe smart thing to do was to buy before they did rise.

In early 1948 savings began to increase and reached $17.1 billion by March 1949.

During this last year, while savings have been increasing, so, too, have personal incomes and taxes. In fact, taxes and savings increased to such an extent that despite rising personal incomes, personal consumption expenditures dropped nearly $8 billion between the second quarter of 1948 and the beginning of the second quarter in 1949. During the second quarter of this year, however, personal consumption expenditures increased nearly $2 billion despite a drop of almost $1 billion in personal income.



REAL ESTATE ACTIVITIES IN PRINCIPAL CITIES

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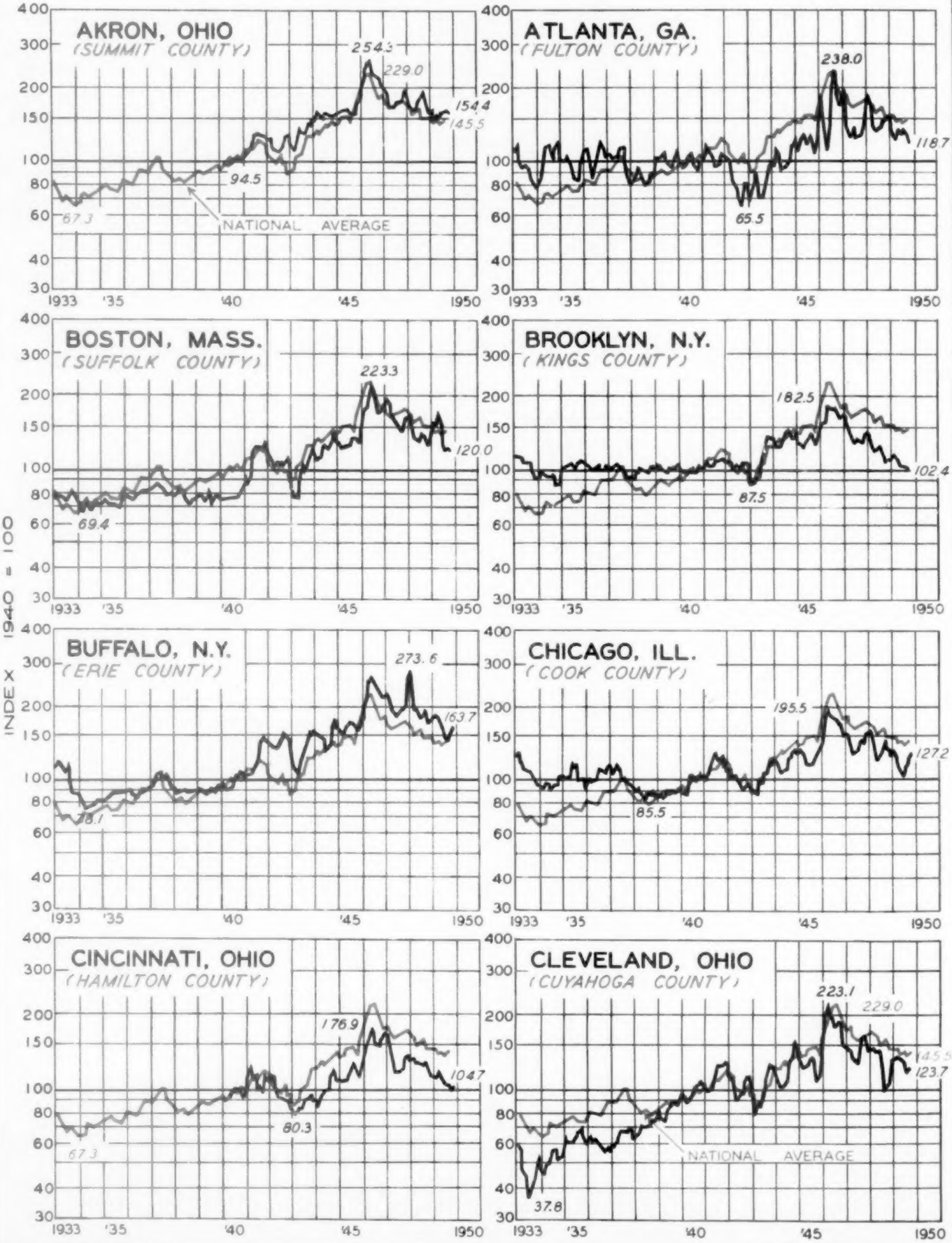
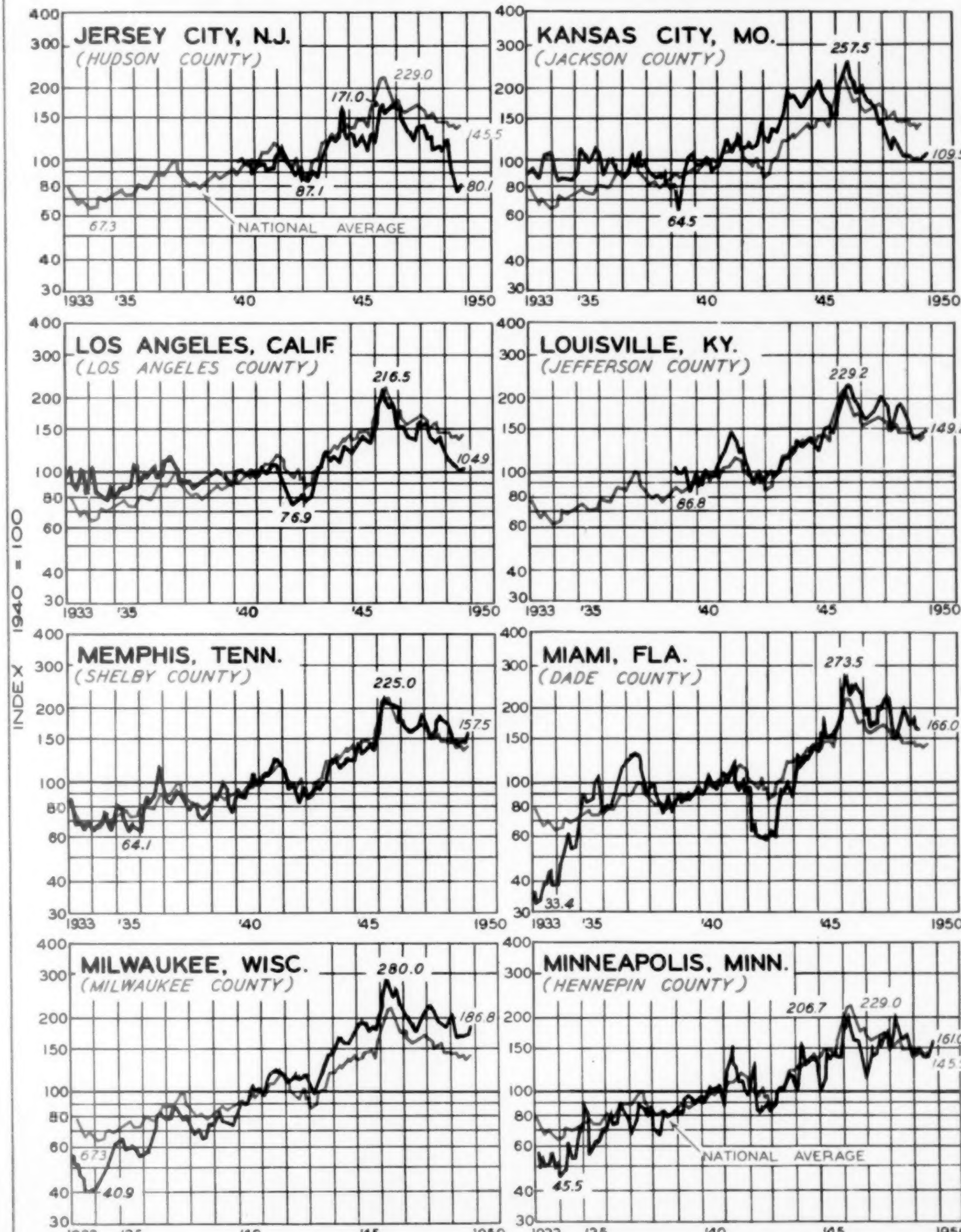
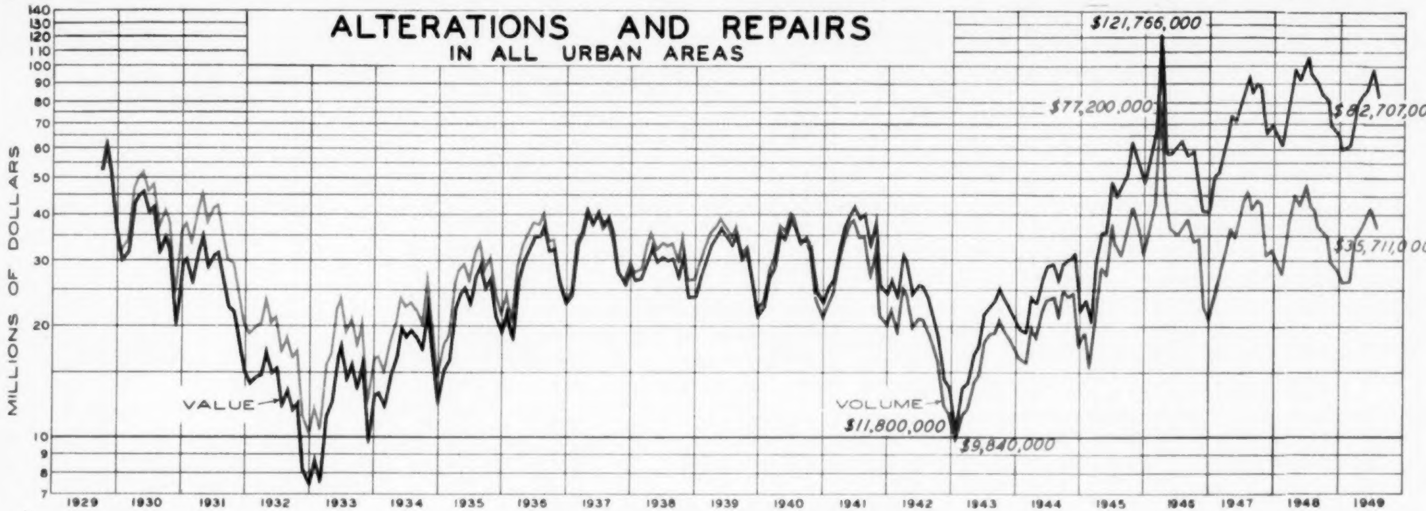


REAL ESTATE ACTIVITIES IN PRINCIPAL CITIES





ALTERATIONS AND REPAIRS

THE chart above shows the dollar value and the estimated physical volume of alterations and repairs from September 1929 to the present. The line showing volume is the value line corrected for changing construction costs.

The only basis for a chart of this sort is a compilation of building permits, with the difficulty that a large volume of alterations and repairs is of insufficient size individually to require a building permit. For this reason, the dollar figures as shown by the chart are much too low. The percentage fluctuations are probably approximately correct.

The volume of alterations and repairs during 1948 was about equal to that of 1947, although the value in 1948 was somewhat greater due to higher construction costs. So far in 1949 both volume and value have fallen off somewhat due to the general slackening of business expansion that has taken place this year.

Although alteration work follows pretty much the same timing as the general building cycle, its swings are not nearly so severe. Even in times of depression, the amount of alterations and repairs is a sizable amount each year. Naturally, new work is generally preferable to repair work, but when residential building reaches a low ebb a nice volume of alteration and repair contracts can be most welcome. Material dealers can also change their operations and marketing and advertising to cater to the small buyer. **We believe that now is not too soon for building supply dealers and contractors to begin to think and plan on switching to alteration work when the new construction cycle hits the low levels a few years hence.**